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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Federal-State Joint Board on
Universal Service

CC Docket No. 96-45

AT&T OPPOSITION TO PRTC PETITION FOR RECONSIDERATION

Pursuant to Section 1.429 of the Commission's Rules, 47 C.F.R. § 1.429, and the Commission's Public Notice, Report No. 2471, released March 9, 2001, and published in 66 Fed. Reg. 15260 (March 2, 2001), AT&T Corp. ("AT&T") hereby opposes the Petition for Reconsideration of the Commission's Thirteenth Report and Order and Further Notice of Proposed Rulemaking, FCC 00-428, 65 Fed. Reg. 78990 (December 18, 2000) ("Thirteenth Report and Order") filed by Puerto Rico Telephone Company, Inc. ("PRTC") on January 17, 2001. PRTC contends that the Commission should delay implementing the phase-down of PRTC's interim hold-harmless support until January 1, 2003, *i.e.*, two years after its scheduled commencement date of January 1, 2001. The Commission should *deny* PRTC's request, which provides no new information that was not previously before the Commission when it decided to phase-down hold-harmless support through \$1.00 reductions in average monthly per-line support in all non-rural LEC study areas receiving high-cost support based on embedded cost, commencing January 1, 2001.

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In the *Methodology Order* (§ 20),¹ the Commission reaffirmed that federal universal service support should be based on forward-looking economic costs, as opposed to the incumbent's embedded costs of providing supported services, because measuring the need for support based on forward-looking cost is necessary "to send the correct signals for investment, competitive entry, and innovation." As the Commission explained, "forward-looking costs will provide sufficient support without giving carriers an incentive to inflate their costs or to refrain from efficient cost-cutting."²

The Commission also established an interim hold-harmless provision under which non-rural carriers would receive the greater of either their pre-existing universal service support amount or the support to which they would be entitled under the new forward-looking cost-based mechanism. *Methodology Order* §§ 78-88. The Commission emphasized that the interim hold-harmless provision is a *transitional* measure that is intended to protect consumers in high-cost areas from potential rate shock during the shift to the forward-looking mechanism. Accordingly, the Commission asked the Joint Board to provide a recommendation on or before July 1, 2000 concerning how the interim

¹ *Federal-State Joint Board on Universal Service Reform*, CC Docket No. 96-45, Ninth Report & Order and Eighteenth Order on Reconsideration, FCC 99-306, 14 FCC Rcd 20432 (1999) ("*Methodology Order*"), *pets. for review pending sub nom.*, *Qwest Corp v. FCC*, No. 99-9546 and consolidated cases (10th Cir. 1999). *Federal-State Joint Board on Universal Service Reform*, CC Docket No. 96-45, Seventh Report & Order and Thirteenth Order on Reconsideration, 14 FCC Rcd 8078, § 50 (1999) ("*Seventh Report & Order*").

² *Methodology Order* § 47.

hold-harmless provision can be phased out or eliminated without causing undue disruption to consumer rates in high-cost areas. *Id.* ¶ 88.

After careful consideration, the Commission in the *Thirteenth Report and Order* adopted the Joint Board's *Recommended Decision*³ and elected to phase-down interim hold-harmless support, excluding Long-Term Support ("LTS"), through \$1.00 reductions in average monthly, per line support beginning January 1, 2001, and every year thereafter until this support is eliminated. *Thirteenth Report and Order* ¶¶ 1, 12.

With respect to PRTC, in particular, the Commission acknowledged that "although PRTC's support will take longer to phase down than any other carrier's because it receives higher amounts of per-line support, PRTC also will lose more total interim hold-harmless support than any other carrier as a result of the phase-down." *Id.* ¶ 13. Nonetheless, the Commission expressly concluded that the scheduled phase-down for PRTC was appropriate. For one, the Commission noted that Puerto Rico's state regulatory agency supports the Joint Board's recommended phase-down approach, which PRTC now challenges. *Id.* n.47. The Commission firmly concluded that "the approach recommended by the Joint Board reasonably balances the need to phase down interim hold-harmless support in an equitable way with a desire to minimize potential rate shock for Puerto Rico." *Id.* ¶ 13.

PRTC now contends that implementation of the phase down should not occur until the Commission has reviewed the forward-looking cost mechanism, which is

³ *Federal-State Joint Board on Universal Service Reform*, CC Docket No. 96-45, Recommended Decision, 15 FCC Rcd 14714 (2000).

scheduled to be completed by January 1, 2003 or until the Commission completes its review of challenges to the forward-looking cost model on reconsideration of the *Methodology Order* and the *Tenth Report and Order*. However, the Commission expressly rejected this further delay, stating that:

"We disagree with commenters who argue that interim hold-harmless support should be preserved at its current level pending resolution of other federal high-cost issues, including rural high-cost reform and exhaustion of 'all judicial appeals[.]' We adopted the interim hold-harmless provision to ensure a nondisruptive transition to the forward-looking mechanism for non-rural carriers, not to provide a means of postponing or avoiding the need for a transition in the event that some parties raised concerns regarding this mechanism. As stated above, we are mindful of the interrelationships between different elements of the federal universal service scheme, but we are not persuaded that any of the high-cost issues or decisions cited by commenters justify postponement of this transition. Based on our examination of the record, we conclude that the public interest will be served by expeditiously advancing the transition to forward-looking support for non-rural carriers." *Thirteenth Report and Order* ¶ 14 (citations omitted).

PRTC has shown no basis for modifying any of these findings and delaying the transition to the new forward-looking cost mechanism through a paced elimination of interim hold-harmless support.

WHEREFORE, the Commission should deny PRTC's petition for reconsideration and proceed with the phase-down of interim hold-harmless support.

Respectfully submitted,

AT&T CORP.

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April 2, 2001

CERTIFICATE OF SERVICE

I, Tracy L. Rudnicki, do hereby certify that on this 2nd day of April 2001,
a copy of the foregoing "AT&T Opposition to PRTC Petition for Reconsideration" was
served by U.S. first class mail, postage prepaid, on the parties named on the attached
Service List.

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